

Economics of History Activity

networks

Postwar America, 1945–1960

Postwar Boom and Inflation

Many Americans feared that the end of World War II would trigger a postwar recession just as the end of World War I had done. However, the American economy continued to grow after the war as increased consumer spending helped ward off a recession.

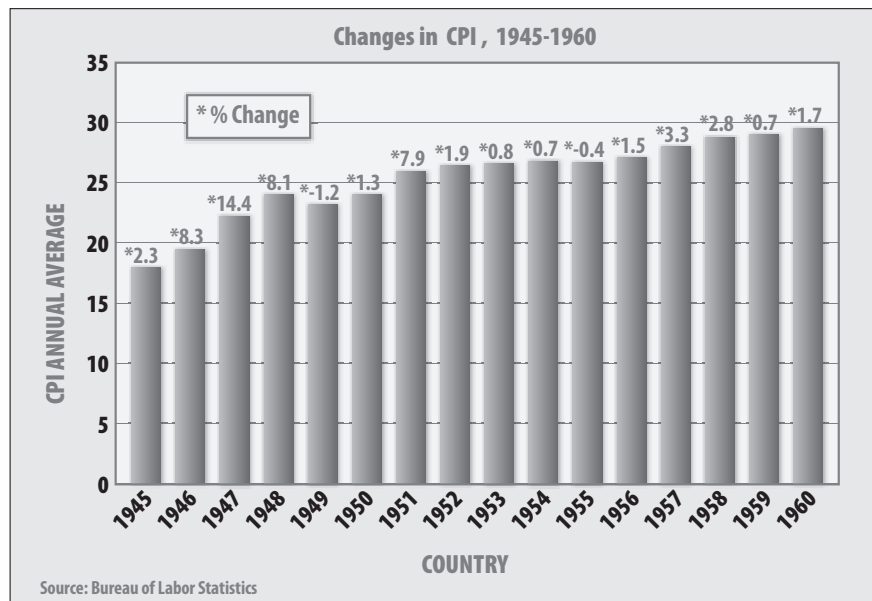
After nearly two decades of deprivation—first because of the Great Depression and later because of wartime shortages and rationing—Americans rushed to buy the consumer goods they had long desired. Government policy also helped stave off a recession. The Truman Doctrine committed the United States to an enlarged global military presence, which meant that military spending did not drop off after World War II the way it had after World War I. Further, the GI Bill boosted the economy by giving funds to veterans to help them establish businesses, buy homes, and attend college.

The main problem of the postwar economy was inflation. The supply of consumer goods was high but not high enough to keep up with rapidly increasing demand. With demand higher than supply, prices rose quickly. The federal government measures the average price level with an **economic index** known as the **Consumer Price Index** (CPI). The graph below shows the changes in the CPI between 1945 and 1960. There was particularly severe inflation during the first several years after the war.

Economics Terms to Know

economic index a statistical measure of changes in a representative group of data points

Consumer Price Index index used to measure price changes among common consumer items



With prices rapidly rising, workers experienced a loss of purchasing power, which soon triggered strikes in the automobile, steel, electrical, and mining industries. Labor unrest and high prices enabled the Republican Party to take control of Congress after the 1946 midterm elections. The new Congress quickly set out to curb the power of labor unions, passing the Taft-Hartley Act outlawing several union practices. President Truman vetoed the Taft-Hartley

United States History and Geography: Modern Times

Economics of History Activity *Cont.***networks** **Postwar America, 1945–1960**

Act, but Congress overrode his veto. Union activity was severely curtailed, and labor leaders complained that Taft-Hartley erased many of the gains unions had made since 1933. Limits on wage increases did have the effect of curtailing runaway consumer spending. As a result, inflation was brought under control and remained relatively low throughout most of the 1950s.

Applying Economics to History

1. Why did the United States experience a postwar boom instead of a postwar recession?
2. Why do you think inflation was more severe in the late 1940s than during the 1950s?
3. Why do you think President Truman vetoed the Taft-Hartley Act?